
Gas Revenue Decoupling Workshop

DPSC Docket No. 09-277T

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& Light Company*

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Agenda

- 1) Background and Purpose of the Workshop
- 2) Rate Design Overview
- 3) MVF Rate Design Components
- 4) Gas Energy Efficiency Programs
- 5) Communications Plans

Introduction and Background

Objectives:

How did we get here?

What do we want to accomplish in these workshops?

Background on Decoupling

We have been talking about decoupling for years

- In 2005, recommendation that the parties explore alternative delivery rate structures
- In 2006, parties agreed to participate in a docket to investigate decoupling mechanisms
- Regulation Docket No. 59 opened March 2007
 - On September 16, 2008, the Commission issued Order No. 7420
 - Approved the adoption of Staff's recommendations regarding the potential adoption of a modified fixed variable rate design
 - Filed to implement decoupling in 2009 (electric) and 2010 (gas) rate cases

Background on Decoupling

- In 2009, the State enacted legislation setting aggressive goals around reductions in energy use and peak usage.
- In the recent rate cases, the Commission ordered workshops
 - To educate the public
 - To develop an implementation plan
- Decoupling provides a mechanism to ensure that the utilities' financial incentives are aligned with supporting Customers energy efficiency

Background on Decoupling

The purpose of the Workshops is clearly expressed in the Commission orders

Both the electric and gas rate case settlement, as approved by the Commission, state the purpose of these workshops:

Participation in such workshops shall be for the purpose of constructively participating in the development of the proposed implementation plan for the MFV rate design.

Rate Design Overview

Objectives:

What are the principles of rate design?

How does decoupling fit into these principles?

What is Modified Fixed Variable rate design?

Modified Fixed Variable Rates

Utility Assets, Operations, Costs and Rates

August 29, 2011

Why Do Costs Matter?

- Utility rates are designed to
 - Treat similar customers equally
 - Avoid one type of customer subsidizing another customer type
 - Recover reasonable costs
 - Provide the opportunity to earn a specified return on investment
 - Maintain the ability to attract new funds for replacement, enhancement and expansion

Utility versus Business

- Utility
 - Must serve all customers
 - Must meet demand of all customers
 - Must operate around the clock
 - Prices are predefined
 - High fixed costs
 - Regulated
- Business
 - Can choose its type of customer
 - Can be “out of stock”
 - Can select business hours
 - Can change prices at will
 - Some have low fixed costs
 - No limit on profits; risk of bankruptcy

Customer Myths & Anecdotes

- Low usage = low income
- Low usage = customer conservation
- All residential customers are similar
- Customers won't conserve at the peak
- Decoupling is new & untested

Why Change the Rate Form Now?

- Customers have different usage patterns (lifestyle choices) that impact utility costs
- Conservation programs have, can and will impact usage
- Advanced metering allows for additional information and options with limited meter reading costs

Why Change the Rate Form Now?

- Present rate structure provides utility with greater profits if sales increase
- Energy efficiency methods cost less than building new facilities
- Utility has no incentive to support energy efficiency (see first bullet)

Make the utility an interested partner in energy efficiency

Cost Functionalization

- Four utility functions
 - Energy Supply – purchase of natural gas and/or purchase of electricity
 - Transmission – bulk delivery of gas (pipelines) or electricity (high voltage lines and substations)
 - Distribution –distribution system (mains or wires) and transformation (pressure regulators or transformers)
 - Customer Service – meters and meter reading, service line, billing and customer contact

Functions Covered by MFV Rates

- “Local” functions
 - Distribution
 - Customer Service
- Both regulated only at the state level
- Regulated monopoly avoids duplication of facilities and costs
- Approximately 25 – 35% of total bill

Cost Classifications

- Three types of costs
 - Customer – varies with the number of customers
 - Demand – varies with the customer's impact during the peak period
 - Volumetric (commodity) – varies with the amount and time of usage of the customer

These costs can be equipment/facility related or the expenses to perform these functions

Customer Costs

- The cost incurred by the utility to provide services to a customer, such as:
 - Meter and meter reading
 - Service line and regulator
 - Billing
 - Customer service
 - Customer leak, service or outage response

Demand Costs

- The cost incurred by the utility to serve a customer's peak (maximum) usage, such as:
 - Distribution pipes or wires
 - System pressure regulators
 - Transformers
 - Substation equipment
 - Storage tanks
 - System operations

Volumetric Costs

- The cost incurred by the utility to serve a customer's usage, such as:
 - Mcf, ccf or therms and associated losses
 - kWh and associated losses
 - Gallons and associated losses

How Rates Are Developed

- Total the allowed costs by classification
- Measure the “billing units” by classification
 - Customers or meters
 - Demand (peak) (ccf/day or kW)
 - Volumetric (ccf or kWh)
- Divide the costs by the respective billing units to develop the “rates”

Where Was the Demand Charge?

- Residential and small commercial
 - Demand meters were not cost effective
 - Customers were presumed to be similar
 - Utility (and others) thought that customers had limited desire to control usage
- Medium and large customers have had demand rates for many years

Current Volumetric Rate

- Customer Charge and Volumetric Charge
 - Demand costs divided by volume not peak demand
 - Some customer costs collected by volume
- During adverse weather, sales are higher and utility over collects for customer and demand costs
- Some of lower usage customers' costs are paid by higher usage customers

Fixed Variable Rate (FV)

- Three part rate (customer, demand and volumetric)
- Customer opportunity to
 - Use “off-grid” technology or alternative fuels
 - Reduce demand at peak periods
 - Reduce volumetric usage by efficiency and/or conservation

Modified Fixed Variable (MFV)

- Customer Charge
- Design Day Contribution

Rate design that has been modified to reduce the impact of the change
- gradualism

Modified Fixed Variable (MFV)

- Customer's distribution rate
 - Tailored to individual usage (25-35% of total bill)
 - Not affected by weather
 - Not affected by the actions or inactions of other customers
- Customer gets a stable delivery charge
- Energy efficiency efforts don't change the Company's revenue
- Used in Georgia for over ten years

Communications and Education

- Key to successful implementation
 - Explain the new MFV rate
 - Explain how to save with efficiency and conservation
 - Explain how lifestyle impacts personal costs
- Understand the transition
 - “Modified” to reduce the impact
- How advanced metering will offer more benefits in the future

Gas Rate Design: Modified Fixed Variable (MFV)

Objectives:

What are the components of this rate design?

What are impacts to customers?

MFV Demand –Related Charge

- DDC – **Delivery** Demand Contribution
 - New Billing Determinant for RG, GG, and GVFT Service Classifications
- DDC design is based on the usage requirement during the coldest conditions during the heating season
 - intended to align customers **delivery** rates with underlying costs of the **delivery** infrastructure
- The rate structure links those Customers that contribute most to peak load and the costs to serve that peak. Those Customers that use less during peak load will pay less. This is all factored into the rate structure via the DDC.

DDC Factor Development

- The DDC factor is developed for each service classification and is calculated by adding
 - Heating contribution
 - Based on heating usage (Winter actual usage with Summer “non-heating” usage removed)
 - Non-heating contribution
 - August usage
- DDC would be developed for each customer premise.
- Customer-specific DDC would have to be reconciled to the class DDC.

Monthly Charge Options

Customer Charge Level	Corresponding DDC Charge	%Customers >10%	Estimated # of Customers >10%	Avg Bill Impact for Customers >10%
\$ 10.40	(Customer charge today)			
\$ 10.40	\$ 2.38266	1.59%	1,769	\$ 9.71
\$ 12.00	\$ 2.22439	3.97%	4,401	\$ 4.59
\$ 15.00	\$ 1.92765	8.85%	9,821	\$ 4.73
\$ 18.06	\$ 1.62470	13.98%	15,504	\$ 6.00

- What customer charge level should be used?
- How much time should we take to get to a fully allocated customer charge?

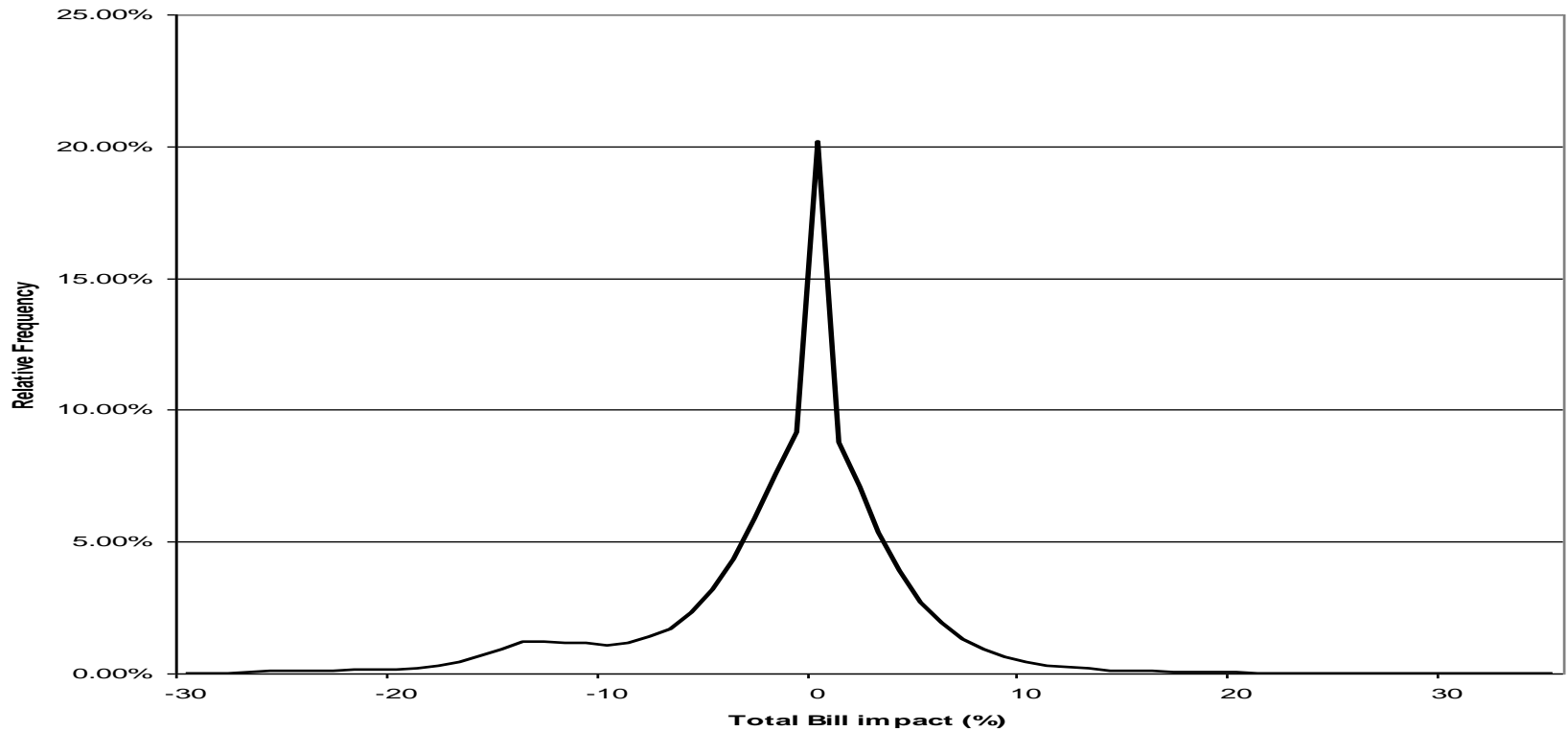
Customer Impact Summary

- Average Monthly Bill Changes at \$10.40 Customer Charge
 - 10,140 customers: decrease of \$6.83.
 - 10,755 customers: decrease of about \$5.
 - 29,845 customers: decrease of about \$3.
 - 22,401 customers: increase of \$0.01.
 - 27,776 customers: increase of about \$3.
 - 8,239 customers: increase of about \$6.
 - 1,769 customers: increase of \$9.71.

Bill Impact Distribution: Current Customer Charge



DPL Delaware - Gas Delivery Service
Residential Service Classification
Delivery Demand Contribution (DDC) Based Revenue Neutral Delivery Rate Design
Current Customer Charge
Bill Impact Distribution



New Bill Format

- Delivery Charge for Average 120 ccf customer – Winter Month
- Current Bill
 - Customer Charge = \$10.40
 - Distribution Charge 50 ccf * \$0.45802/ccf = \$22.90
 - Distribution Charge (>50) 70 ccf * \$0.36754/ccf = \$25.73
 - Environmental Surcharge 120 ccf * \$0.001/ccf = \$ 0.12
- “Decoupled” Bill (*all 12 months*)
 - Customer Charge = \$10.40
 - DDC Distribution Charge 8.45 ccf * \$2.383/ccf = \$20.14
 - Environmental Surcharge 120 ccf * \$0.001/ccf = \$ 0.12

Energy Efficiency Programs

Objectives:

Review the current natural gas energy efficiency programs available to Delmarva Power's residential customers in Delaware.

Review the potential for increasing energy efficiency program promotions by co-branding with Delaware's Sustainable Energy Utility (SEU).

Discuss the possibility of additional energy efficiency programs or promotions resulting from AMI.

Energy Efficiency Programs

- Delaware established a Sustainable Energy Utility (SEU) in 2007, programs were launched in early 2009.
- The Delaware SEU is responsible for the development, implementation and funding of statewide energy efficiency programs.
- The SEU established “Energize Delaware” as a comprehensive set of rebates, tips & energy saving solutions for Delaware residents and businesses.
- The SEU’s “Home Performance with Energy Star” program offers homeowners rebates when making eligible energy-saving home improvements.
- Home energy loans are also available through the SEU to make it more affordable.

Energy Efficiency Programs

- Low Income Weatherization programs are also available to qualifying customers as part of the state of Delaware's Weatherization Assistance Program.
- Delmarva Power provides customers with energy efficiency tools and tips such as:
 - On-line Energy Advisory Tools – “My Account”
 - Active Community Speakers Bureau Program
 - Energy Efficiency tips and ideas included in Bill Inserts
 - Website content and links to the SEU
- Delmarva sponsors an annual Low Income Customer Energy Summit (October 12, 2011)
 - Supports state agencies
 - Offers educational programs to help agencies communicate important information to customers
 - Provides a forum for regulators, agencies, and others to examine issues impacting customers

Energy Efficiency Programs

According to the American Gas Association and the Consortium for Energy Efficiency (CEE) November 2010 report:

- Currently 38 States in the U.S. have over 100 active energy efficiency programs.
- Residential natural gas efficiency program participants in the U.S. saved an average of 9% on their annual natural gas bill.
- In 2009, U.S. customers saved nearly 53 trillion BTU through natural gas efficiency programs thus avoiding 2.8 million metric tons of carbon dioxide (CO₂) emissions.
- The predominant program designs include:
 - space heating
 - water heating
 - weatherization

Energy Efficiency Programs

- Both Delmarva Power and the SEU are supportive of mutual energy efficiency promotional opportunities to help raise awareness of the SEU programs.
- The potential also exists for additional programs to compliment the existing set of energy efficiency programs.
- Next steps include continued discussions among parties and input from other stakeholders.
- AMI Gas Modules will enable future energy efficiency opportunities:
 - More detailed gas consumption information will be provided to customers via web link using the “My Account” tool.
 - Future offerings could include improved customer information which can help customers make better informed energy efficiency decisions.

Customer Education and Communication

Objectives:

Why is it important?

How does Delmarva Power intend to communicate?

What are the key messages?

Customer Education

- The parties are committed to proactively educating customers on the new rate design.
- Key Components of the Decoupling Education Plan include:
 - **Who?** (the impacted customers - Residential and Small Commercial)
 - **What?** (changes on the bill, changes in how customers can lower their bills)
 - **When?** (PSC approves new rate design; Implementation could take up to three months, during which education plan occurs)
 - **Why?** (to align the Company with the goals of our customers → to reduce the cost of gas)
 - **How?**

Customer Education

Communication Tactics:

- News releases, bill inserts, website and *Lines* (customer newsletter) article
- Call Center/Energy Advisers
- Speakers Bureau presentations, including joint presentations with Staff
- Radio & print advertising
- Social media (Twitter & Blog)

Target Audiences:

- Customers
- Media
- Legislators
- Editorial boards
- Community groups
- Opinion leaders

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